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ABSTRACT

The U.S. textile industry may serve as a classic study on regeneration through market forces. The industry has recently made a turnaround in profits after having been recognized as an industry that was losing most of its profits to overseas producers. The reasons for the emerging strength of the industry is that it began to innovate after a protectionist measure was vetoed by President Reagan. New production techniques and applications of computers have been developed, inventory and quality controls have been re-evaluated and new arrangements have been developed with labor at the bargaining table and on the shop floor. Marketing efforts have been changed. The industry has been restructured as mills closed or changed hands and companies merged. Emerging from this process were companies with renewed vigor and discipline. Economic lessons to be learned from the recent textile situation are that: (1) industries try to enlist the aid of the federal government to pass inefficiency to the consumer; (2) special interest groups ask for legislation that benefit themselves at the expense of others in society; (3) the political process is not efficient enough to respond quickly to the economic environment; and (4) government may worsen the plight of the industry it is trying to help. (SM)

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TEXTILES, TARIFFS AND TURNAROUNDS: PROFITS IMPROVED

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Profits Improved

TEXTILES, TARIFFS AND TURNAROUNDS

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Business Week recently published second quarter results for nearly 1000 major businesses in dozens of industries. In general the picture was not pretty. Overall, profits were down.

But some industries' profits improved. The industry that improved most was, of all things, textiles and apparel – up 67 percent compared with the second quarter 1985. The single company with the greatest profit improvement was Atlanta's Oxford Industries, the clothing maker.

According to employment figures released recently, U.S. manufacturing employment continues to decline. In Georgia's textile industry, however, employment figures have improved slightly over the past year.

Profits are up and employment is up in the textile industry. To most people those facts will come as a great surprise. What we have heard is that the United States' textile industry is losing the battle to overseas producers. Foreign goods, made inexpensive by cheap labor or government subsidies, are destroying U.S. producers' domestic markets. If the United States government fails to enact tariffs on import quotas, we are led to believe, a great industry will die. Hundreds of thousands more jobs would disappear. While U.S. consumers would pay more for textiles and clothing, it is argued, that small sacrifice is only appropriate given the consequences.

Congresman Ed Jenkins of Georgia's 9th District has been leading the charge to save the textile industry. His years of effort seemingly paid off when Congress passed a bill to protect textile's interests from what was pictured as unfair, foreign competition. President Reagan vetoed the measure, however. The President stood for free trade and free enterprise. He did not believe that American consumers should be forced to support non-competitive producers. Reagan took the heat and the House of Representatives failed to override his veto by eight votes.

The American textile industry has suffered for years at the hands of foreign competition. Already having among the lowest paid workers of virtually any American industry, there seemed little fat to trim. Many mills already have closed. Many families and communities have suffered real pain.

But many other mills have survived. And a few have begun to prosper. Driven to the wall by cheaper imports, some manufacturers have begun to innovate. New production techniques and applications of computers have been developed. Inventory and quality controls have been reevaluated. New arrangements have been developed with labor at the bargaining table and on the shop floor.

Marketing efforts have been changed. The industry has been restructured as mills closed or changed hands and as companies merged. Companies moved out of import sensitive markets. Financing and customer relations developed new meanings.

The process was hard, demanding and often painful. But emerging from the process were companies with renewed vigor and discipline, prepared to do combat with anyone in the world to provide textiles for the tastes and wallets of American consumers.

Wall Street saw the change and rewarded it. Textile stocks bottomed out in the summer of 1985 and have since risen over 15 percent. Some textile stocks doubled in the first half of 1986.

At the very time that the textile business was managing to pick itself off the floor and beginning to reclimb success' ladder, Congress acted to save the industry. President Reagan's veto of this popular textile trade bill was guided by the recognition that government action came too late to help those companies that had already succumbed. Those companies that survived by finding ways to improve their profitability no longer were so desperate for help. Political action was unneeded and untimely. But the veto was sustained.

No question about it, textiles still have a rough time ahead. But just as surely, the industry will survive and return to some semblance of health.

Congressman Jenkins told the House of Representatives that is it passed his bill, the textile industry would improve. Congress passed the bill and Jenkins has been true to his word, despite the President's veto.

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TEXTILES

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There are some economic lessons to be learned from the recent textile drama.

1. Industries turn to Washington to help them avoid or ease costly or painful change by passing inefficiency onto the consumer. In the case of textiles, this ploy has not worked.
2. Special interest groups come in all shapes, levels of credibility, and degrees of valor. Ultimately, they ask for legislation that benefits themselves at the expense of others in society.
3. Washington's economic activities ranging from changes in fiscal policy to efforts to protect specific industries often come too little and/or too late. The political progress is neither sensitive or speedy enough to recognize market changes and to respond quickly to economic environments.
4. Economic changes create real human hardships which compassionate congressmen see and feel and to which they respond. This compassion, however, has little to do with economic common sense. Government meddling only postpones economic problems at best. At worst government compounds or worsens the plight of the industry it is trying to help (see agriculture). In the long term, industries and workers affected by economic change are in the best position to help themselves.

Let's not write this lesson too large. Government can play a variety of supportive roles in dealing with economic problems. In the case of foreign imports, the United States government must play hardball to make international trade more fair so that it will remain as free as possible.

But it is also wonderful to see the free enterprise system responding to dire circumstances in productive ways. In the future, the U.S. textiles industry will be seen as a classic study of revival and rebirth in the hands of business people driven by market forces. Ultimately, we are better for having done what is right, and for minimizing government's role in the process.